

FEDERAL RESERVE SYSTEM

Sky Financial Group, Inc.  
Bowling Green, Ohio

Order Approving Acquisition of a Bank Holding Company

Sky Financial Group, Inc. (“Sky”), a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act<sup>1</sup> to acquire Wells River Bancorp, Inc. (“Wells River”) and its subsidiary bank, Perpetual Savings Bank (“Perpetual”), both of Wellsville, Ohio.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (71 Federal Register 47,226 (2006)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

---

<sup>1</sup> 12 U.S.C. § 1842.

<sup>2</sup> In other pending applications, Perpetual has applied to state authorities to convert to a state-chartered commercial bank and to the Board to become a state member bank. Sky plans subsequently to merge Perpetual with Sky Bank, with Perpetual as the surviving entity, and to operate Sky Bank’s offices as branches of Perpetual pursuant to section 18(c) of the Federal Deposit Insurance Act and section 9 of the Federal Reserve Act. 12 U.S.C. § 1828(c); 12 U.S.C. § 321. Sky intends to change the name of Perpetual to Sky Bank and to move its headquarters to Salineville.

Sky, with total consolidated assets of \$15 billion, controls Sky Bank,<sup>3</sup> Salineville, Ohio, with branches in Ohio, Indiana, Michigan, Pennsylvania, and West Virginia. Sky is the eighth largest depository organization in Ohio, controlling deposits of \$8.1 billion, which represent 4 percent of total deposits of insured depository institutions in Ohio (“state deposits”).<sup>4</sup>

Wells River, a small bank holding company with banking assets of approximately \$72.6 million, operates one insured depository institution, Perpetual, in Ohio. Perpetual is the 179th largest depository institution in the state, controlling deposits of approximately \$57.4 million. On consummation of this proposal, Sky would remain the eighth largest depository organization in Ohio, controlling deposits of approximately \$8.2 billion, which represent approximately 4 percent of state deposits.

#### Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and

---

<sup>3</sup> Sky also controls Sky Trust, National Association, Pepper Pike, Ohio (“Sky Trust”), a limited-purpose bank that provides only trust services.

<sup>4</sup> Asset and deposit data are as of June 30, 2006, and statewide deposit and ranking data are adjusted for subsequent acquisitions through September 12, 2006. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

needs of the community to be served.<sup>5</sup> The Board has carefully considered the competitive effects of the proposal in light of all the facts of record.

Sky and Wells River compete directly in the Youngstown-Warren, Ohio banking market.<sup>6</sup> The Board has reviewed carefully the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions in the market (“market deposits”) controlled by Sky and Wells River,<sup>7</sup> the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),<sup>8</sup> and other characteristics of the market.

---

<sup>5</sup> 12 U.S.C. § 1842(c)(1).

<sup>6</sup> The Youngstown-Warren banking market is defined as Mahoning County, excluding Smith township; Trumbull County, excluding Brookfield and Hartford townships; and Columbiana County, all in Ohio; and the Grant District in Hancock County, West Virginia.

<sup>7</sup> Deposit and market data are as of June 30, 2006, reflect merger activity through September 12, 2006, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386, 387 (1989); National City Corporation, 70 Federal Reserve Bulletin 743, 744 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52, 55 (1991).

<sup>8</sup> Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless

In the Youngstown-Warren banking market, Sky is the largest depository organization, controlling deposits of \$2.5 billion, which represent 35.5 percent of market deposits. Perpetual is the 17<sup>th</sup> largest depository institution in the market, controlling deposits of \$57.4 million, which represent less than 1 percent of market deposits. On consummation, Sky would remain the largest depository organization in the market, controlling deposits of approximately \$2.5 billion, which represent 36.2 percent of market deposits. The HHI would increase 44 points to 1809.

The proposal would be consistent with DOJ Guidelines in the Youngstown-Warren banking market. Although the market would become highly concentrated as measured by the HHI, the increase in the HHI would be small. As noted, Sky currently controls 35.5 percent of the market, and on consummation of the proposal, Sky's market share would increase by less than 1 percent. Furthermore, 16 insured depository institutions other than Sky would continue to operate in the market, including two institutions, each with more than 10 percent of market deposits, and three other institutions, each with more than 5 percent of market deposits. These factors, therefore, indicate that the proposal is not likely to have a significantly adverse competitive effect in the Youngstown-Warren banking market.

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition

---

the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the Youngstown-Warren banking market, where Sky and Wells River compete directly, or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

#### Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by the applicant.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board expects banking organizations contemplating expansion to maintain strong capital levels substantially in excess of the minimum levels specified by the

Board's Capital Adequacy Guidelines. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial factors of the proposal. Sky, Sky Bank, and Perpetual are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board also finds that Sky has sufficient financial resources to effect the proposal. The proposed transaction is structured as a share exchange and cash purchase. Sky will use existing resources to fund the cash portion of the transaction.

The Board also has considered the managerial resources of Sky, Wells River, and their subsidiary banks. The Board has reviewed the examination records of these institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking and anti-money laundering laws. Sky, Wells River, and their subsidiary depository institutions are considered to be well managed. The Board also has considered Sky's plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).<sup>9</sup> Sky Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of Cleveland, as of October 14, 2004. Perpetual also received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation, as of July 1, 2005. After consummation of the proposal, Sky plans to implement its CRA policies at Perpetual. The proposal would result in efficiencies that would allow Sky to better serve the customers of Sky Bank and Perpetual and would expand the products and services available to Perpetual customers. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.

### Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching this conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board’s approval is specifically conditioned on compliance by Sky with the conditions imposed in this order and the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are

---

<sup>9</sup> 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).



deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>10</sup> effective October 6, 2006.

*(signed)*

---

Robert deV. Frierson  
Deputy Secretary of the Board

---

<sup>10</sup> Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin. Absent and not voting: Governor Bies.